ONTARIO
Financing Authority

2000 Annual Report

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PROFILE

On behalf of the Province of Ontario, its Crown corporations and other public bodies, the Ontario Financing Authority:

- executes borrowing, investment and financial risk management activities;
- manages the Provincial debt;
- advises on financial policies and projects;
- provides financial and cash management services;
- provides financial services and advice to the Ontario Electricity Financial Corporation;
- operates the Province of Ontario Savings Office.

As an agency of the Province, the Ontario Financing Authority reports to the Minister of Finance who is accountable to Cabinet for the activities of the Ontario Financing Authority.

HIGHLIGHTS IN 1999-2000

The Ontario Financing Authority fulfilled the Province's 1999-2000 financing requirements, $10.5 billion, in a sound and cost-effective manner.

Public debt interest costs were $318 million below the 1999 Budget forecast, largely due to a smaller financing program coupled with higher interest earnings on the Province's liquid reserve portfolio.

The fifth annual Ontario Savings Bonds campaign raised more than $2 billion, the biggest provincial savings bond campaign in Canadian history.

The Ontario Financing Authority played a significant role in the successful restructuring of Ontario Hydro and the establishment of the two new successor commercial corporations, Ontario Power Generation Inc. and Ontario Hydro Services Company Inc. (OHSC was renamed May 2, 2000 to Hydro One Inc.). Also, comprehensive support and advice were provided to the Ontario Electricity Financial Corporation, the successor financial corporation to the former Ontario Hydro.

The Ontario Financing Authority worked closely with representatives of the Privatization Secretariat and the Ministry of Transportation on the successful privatization sale of the Highway 407 Express Toll Route for $3.1 billion.

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STATEMENT FROM THE CHAIR

Bryne Purchase
Chair

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With a budgetary surplus in 1999-2000, the Government has achieved its Balanced Budget Plan target one year ahead of schedule. The 1999-2000 interim outlook of a $654 million surplus is a $2.7 billion improvement from the 1999 Budget forecast, and a $3.3 billion improvement over the original Balanced Budget Plan deficit target of $2.6 billion. The $654 million surplus has been applied to reduce Net Provincial Debt. As a result of prudent and realistic planning, this is the fifth year in a row in which the Balanced Budget Plan deficit-reduction target has been overachieved.

Furthermore, Ontario is committed to avoiding future budget deficits. The Government introduced and the Legislature has passed the most stringent balanced budget legislation in Canada. A plan is also in place to ensure the future will be one of debt reduction. The goal is to reduce Net Provincial Debt by at least $5 billion over the Government's current mandate. Net Provincial Debt as of March 31, 2000 was $114.1 billion.

The fiscal improvements in Ontario and across Canada have contributed to lower domestic interest rates. Ontario's robust economic growth, combined with declining fiscal requirements, bodes well for the Province's borrowing program. These developments, coupled with the efficient financing operations of the Ontario Financing Authority, have been factors in lowering debt costs.

I am proud to report that the restructuring of the former Ontario Hydro into five successor companies has been completed, paving the way for the introduction of electricity competition in the Province. The operation of the Ontario Electricity Financial Corporation (OEFC), one of the five successor companies, became the responsibility of the Ontario Financing Authority on April 1, 1999. The Ontario Financing Authority has been successful in managing the financial aspects of the transition.

The Board is pleased with the operation of the Ontario Financing Authority and looks forward to the challenges of the coming year.

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Ontario Financing Authority

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

Tony Salerno
CEO and Vice-Chair

I am delighted to report on the Ontario Financing Authority's achievements in 1999-2000.

The Ontario Financing Authority fulfilled its primary goal by raising $10.5 billion to finance the Province's maturing debt, early redemptions and debt buybacks and other cash needs. In 1999-2000, actual Public Debt Interest expense was $318 million below the 1999 Budget forecast, largely due to a smaller financing program coupled with higher interest earnings on the Province's liquid reserve portfolio.

Since April 1, 1999, the Ontario Financing Authority has been responsible for Ontario Electricity Financial Corporation's debt management, risk and cash management activities, and accounting and reporting requirements. The staff at the Ontario Financing Authority worked diligently with colleagues at the Ministry of Finance and with representatives of the former Ontario Hydro and the newly formed subsidiaries to ensure a smooth and seamless operational transition.

The Ontario Financing Authority worked with the Ministry of Finance and other Ontario Government ministries to provide substantive advice and support for several financial projects, notably, the restructuring of the Ontario electricity sector and the privatization sale of Highway 407.

In addition, the Ontario Financing Authority acted as financial advisor to the Catholic School Boards Services Association in developing the first pooled financing transaction for school boards in Ontario.

Lastly, the Ontario Financing Authority worked relentlessly to ensure a smooth Year 2000 transition. All systems operated on January 4, 2000, without any disruptions and computer applications have continued to operate normally.

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Internet technology is quickly changing the manner in which business is conducted. The Ontario Financing Authority is constantly reviewing new options including exploring the possibility of an Internet Auction facility for the Province's Treasury Bills and exploring the feasibility of using the Internet to facilitate the sale and distribution of Ontario bonds. This work will continue in 2000-2001.

We at the Ontario Financing Authority are committed to the successful completion of our 2000-2001 objectives, providing Ontario taxpayers with the excellent service they have come to expect.

Tony Salerno
Vice-Chair and Chief Executive Officer

ONTARIO FINANCING AUTHORITY

Objectives and Responsibilities

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The Board of Directors

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Our People

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- **Executes Borrowing, Investment and Financial Risk Management Activities**

  The primary goal of the Ontario Financing Authority is to meet the Province's financial requirements in a sound and cost-effective manner.

- **Manages the Debt of the Province**

  The OFA manages the Province's debt and contributes to the government's debt-reduction efforts. The key principles guiding the management of the debt and associated risks are soundness, efficiency, a smooth debt maturity profile and safeguarding Ontario's credit rating.

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  The OFA provides financial policy advice to the Ontario Government on a wide range of corporate finance issues. Examples include electricity industry restructuring, privatization, sale of Government assets and alternative financing proposals.

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  The OFA provides financial services and advice to the Ontario Electricity Financial Corporation (OEFC). The OEFC is a Crown agent responsible for servicing and retiring the former Ontario Hydro's provincially guaranteed debt and certain other liabilities of the former Ontario Hydro.

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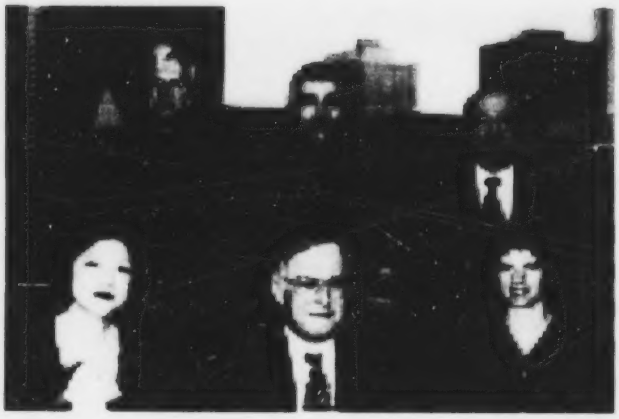
  The OFA operates the Province of Ontario Savings Office (POSO), a source of retail financing for the Province. Currently, POSO operates 23 branches and five agencies and has $2.8 billion in deposits.

The Ontario Financing Authority is committed to performing all of these activities to the highest professional standards.

Appointed by the Lieutenant Governor in Council, the Board of Directors oversees the business of the Ontario Financing Authority. Specifically, it reviews and approves key policies related to capital market activities and it supervises the OFA's management of the Province's debt and investment portfolios. The Board receives regular reports on the Province's actual exposures and on policy compliance through the Director of Risk Control. The Board of Directors also reviews and approves the annual Corporate Plan.

In addition, the OFA Board approves the quarterly and annual financial statements of the Ontario Financing Authority and discusses the annual financial statements with its auditor - the Provincial Auditor. The Audit Committee supports the Board of Directors in these areas. The Audit Committee also recommends the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls.



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The Ontario Financing Authority employees encompasses a range of professions, from economists, accountants and financial analysts, to information systems and Web specialists. This diverse skill set is indicative of an ever-changing "knowledge-based" economy. To retain the organization's ability to provide first-rate and expert services to the government, OFA management is committed to ensuring a good working and learning environment that allows employees to grow and flourish.

In this regard the OFA encourages career development, relationship building and leadership training. Senior management supports and encourages participation in courses related to the Chartered Financial Analyst (CFA) designation, accounting designations, financial industry courses, as well as word-processing, software and Web design applications.

Internal departments at the OFA have been encouraged to facilitate luncheon workshops that provide staff with an overview of their department's responsibilities. Topics covered in 1999-2000 were cash management, money market instruments, Ontario Savings Bonds and computer systems. OFA staff benefit from these workshops by increasing their knowledge of the OFA's operations. Staff are able to enhance their on-the-job performance by being able to work more expeditiously based on their new knowledge of how the OFA operates.

In the past year the OFA initiated a new job rotation program. The aim of the program is to encourage staff to obtain experience in other areas of the OFA. This will provide employees with an opportunity to develop their expertise and skills as well as increase their knowledge about the organization.

In conjunction with the Ministry of Finance, the OFA has engaged staff in discussions regarding "The 1999 Framework for Action Report: Building the Ontario Public Service for the Future: A Learning Organization." The purpose of the discussions is to emphasize the importance of learning and to share success stories that demonstrate the different ways individuals, teams and ministries learn.

Finally, the OFA uses mutually agreed-upon performance contracts that are customized for each employee. In addition to operational objectives, the performance contracts outline the education, training and development plans to be carried out by each staff member.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Report provides management's discussion and analysis of the performance and priorities of the Ontario Financing Authority. The analysis focuses on the OFA's assessment of the business environment, accomplishments in 1999-2000 and priorities for 2000-2001.

The Business Environment

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Capital Markets Division

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Risk Control Division

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Corporate Finance Division

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Capital Markets Treasury Division

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Province of Ontario Savings Office

Financial Markets in Review

The widespread evidence of stronger growth and projections of higher inflation prompted central banks around the globe to shift monetary policy from the crisis-induced accommodative positions in the fall of 1998 to a more neutral, and in some cases, slightly more restrictive stance at the close of 1999.

Both Canadian and U.S. Treasury bond yields increased from the beginning of 1999 to the end of 1999 in anticipation of future higher inflation and interest rates. The 10-year U.S. Treasury bond yield reached a high of 6.44 per cent and the Government of Canada 10-year bond yield rose to 6.34 per cent in 1999. The U.S. Federal Reserve raised its benchmark interest rate three times in 1999, while the Bank of Canada raised interest rates once, aiming to keep inflation within its 1 to 3 per cent target range.

The 10-year Treasury bond yield rose faster than the Government of Canada 10-year bond, due to higher U.S. inflation and stronger economic growth. In fact, 10-year bond spreads against the U.S. turned negative early in 1999, widening to over 40 basis points in the first half of 1999. By the end of the year the gap had narrowed to 19 basis points, due to the Bank of Canada increasing interest rates and an upturn in Canada's underlying inflation rate.

The Canadian dollar ended the year stronger, benefitting from higher oil prices and stronger commodities prices.

Economic Review

With robust domestic demand and strong export sales, Ontario's real Gross Domestic Product (GDP) grew by 5.7 per cent in 1999. Powerful economic growth is fuelling job creation at a record pace. In 1999, a record 198,000 net new jobs were created, following a rise of 177,000 in 1998. With the economy growing so quickly, consumers are driving retail sales higher, up 7.3 per cent in 1999.

Excellent progress has been made in restoring Ontario's financial health. The elimination of the deficit combined with the Government's debt-reduction program will lower the Province's future borrowing requirements.

Year 2000 Summary

Y2K Project Leadership: (left to right)
Andrus Vahtra, Carole Smith, Ingrid Vincent

Significant efforts were dedicated to ensure that business activities would not be interrupted by any Y2K disruptions. These efforts resulted in normal business operations for both the OFA and POSO.

An initial appraisal of Y2K risks to the OFA indicated that the major risks would arise from key external service providers such as banks, fiscal agents and utility companies providing communications and power. To assess all Y2K risks and implement mitigation strategies, a Task Force was established in early 1998. The Task Force worked closely with the Ministry and Corporate Y2K Project Offices and reported regularly to the CEO and the OFA Board. Technology used by the OFA was examined, tested and upgraded where necessary. Staff working groups were formed to determine and implement action plans to ensure all internal systems were sound and to reduce risks to cash flows and

investments managed by the OFA. The OFA's public Web site was used to inform stakeholders about the OFA's risk-reduction activities and status.

POSO's technological infrastructure was determined to require extensive upgrading and testing. POSO staff managed their Y2K project independently, while reporting regularly to the OFA Task Force. POSO staff completed their upgrades in advance of the deadline with no impact on customer service. The substantiveY2K upgrades further benefitted POSO by replacing its aging technologies with modern, more powerful systems.

As a result of the extensive work carried out by the OFA and POSO staff, all aspects of the business functions of both organizations continued to function normally with no date-related incidents.

Technology

The rapid growth in Internet usage is having a dramatic effect on the business environment for both the private and public sectors. The influence of the Internet is particularly important to the Province since it represents a cost-effective way of doing business and Canadians are among the most active Internet users in the world. The volume of transactions being done over the Internet by the retail market is growing exponentially. Conceivably, the next growth phase will see the number of business-to-business transactions or "e-commerce" transactions over the Internet increase.

In this evolving environment, the OFA constantly monitors new technological developments to determine how they can be utilized to enhance the level of service and reduce costs.

- Execute borrowing program and risk management activities.
- Manage legal requirements and securities commission filings.
- Manage relations with investors and the investment community.

Gadi Mayman
Executive Director,
Capital Markets
Division

1999-2000 Accomplishments

In 1999-2000, funding requirements to finance cash needs, maturing debt and debt buybacks were $10.5 billion. The OFA financed this amount with $8.2 billion in long-term public borrowing, a $1.1 billion increase in short-term borrowing, $0.9 billion from the Canada Pension Plan and $0.3 billion from new deposits with POSO. Of the $9.1 billion in long-term borrowing, $8.4 billion was borrowed from the Canadian dollar market and $0.7 billion from the Japanese yen market. Canadian dollar market borrowing included over $2.0 billion raised from the fifth issue of Ontario Savings Bonds (OSB), several domestic issues and $247 million from a Euro-Canadian dollar issue.

The OFA was successful in the development of a Canadian Medium-Term Note program. The issuance process under the program was streamlined and therefore more cost-effective. The Province launched a total of 15 issues consisting of 10 floating-rate issues and five fixed-rate issues, raising nearly $1 billion. The resulting savings from the five fixed-rate issues that were subject to performance measurement were $6.2 million, compared to regular benchmark issues.

The 1999 Ontario Savings Bond Campaign was the largest campaign to date, raising $2.05 billion. The 1995 Series bondholders were offered an opportunity to roll over their existing bond holdings into the 1999 Series at a competitive rate.

The OFA also borrowed $2.0 billion in long-term financing on behalf of the Ontario Electricity Financial Corporation (OEFC).

Flexible and Cost-effective Borrowing

The OFA's flexible approach to borrowing allows it to take advantage of cost-effective financing opportunities. This is particularly important during periods of high market volatility.

Timing of Debt Issues

Through successful timing of debt issues in 1999-2000, the OFA saved the Province $64 million, on a present value basis versus the benchmark.

Financing Sources

While the Canadian market remained the primary source of financing for the Province's long-term borrowing, foreign markets were accessed when they provided lower-cost financing opportunities. An active investor relations program, with the increased use of Internet technology, has helped to promote Ontario bonds and greatly facilitated information dissemination to the financial community.

New multimedia tools offer opportunities to provide investors with financial information on the Province in differing formats. By offering a variety of options, the OFA is able to communicate with investors in a manner that best meets their needs. For instance, the OEFC Web site was created to provide investors with information regarding that entity's financing program and debt management strategies. In addition, for the Province's third-quarter finances, an audio-slide presentation featuring the OFA's Chief Executive Officer was created very cost-effectively in-house and posted on the OFA's Web site. These presentations are the first steps in a broad exploration of Web technologies that can be used in the future to enhance the Province's relationships with investors.

Reducing the Cost of Borrowing

The OFA has continued to build large, liquid benchmarks by buying back small, higher-yielding, less liquid issues at a discount and replacing them with more cost-effective benchmark issues. The OFA has made extensive use of swaps to create fixed-rate long-term financing at considerable savings to traditional domestic bond issues.

Another cost-saving strategy has been to access the Japanese yen market. The Province was able to borrow 10-year funds at an interest rate of below 2 per cent, 4.5 per cent lower than the comparable rate in the domestic market. Foreign-currency exposure is taken only when the benefits of lower foreign interest rates are perceived to outweigh the risks of potential future foreign-currency appreciation.

Finally, the OFA assumed the borrowing and debt management programs of the OEFC thus reducing borrowing costs for the overall Ontario credit.

Risk Management Activities

Michael Manning
Director,
Risk Management

The OFA uses financial options and swaps to manage the Province's exposure to fluctuations in interest rates and foreign currency exchange rates. Risk exposures are monitored daily and audited annually. The cost-effectiveness of borrowing, debt management and investment activities are measured daily against pre-established benchmarks. In 1999-2000, the OFA saved a total of $68.6 million on a present value basis versus the industry benchmarks.

As of March 31, 2000, the Province's total swap portfolio had a notional value of $80.6 billion, which consisted of $38.5 billion in cross-currency swaps and $42.1 billion in interest rate swaps.

In order to mitigate against the financial risks inherent in a large and diversified debt portfolio, it is important to maintain prudent risk management policies and practices. The table below represents the limits and strategies the OFA employs to ensure market, credit and liquidity risks are managed in a sound and cost-effective manner.

Risk		Status
Foreign Exchange Risk	As per the Market Risk Policy, currency exposure on debt principal cannot exceed 5 per cent of Funded Debt and Trust Liabilities.	Net foreign exchange exposure was 1.4% of Funded Debt and Trust Liabilities as of March 31, 2000 and averaged 1.1 per cent throughout the year. During the fiscal year, foreign exchange exposure was within approved limits.
Floating Rate Risk	The Province's floating interest rate exposure (net of liquid reserves) was limited to 20 per cent of Funded Debt and Trust Liabilities in 1999-2000. Effective April 1, 2000 a new measure, **Interest Rate Resetting Risk** replaced the Floating Rate Risk. The new measure limits interest rate resetting risk, arising from net floating rate exposure and debt maturing within a 12-month period, to no more than 25 per cent of Funded Debt and Trust Liabilities.	The percentage of net floating rate interest exposure (net of liquid reserves) was 2.9 per cent of Funded Debt and Trust Liabilities as of March 31, 2000. During the fiscal year, floating interest rate exposure was within approved limits.
Debt Maturity and Refinancing Risk	Term selection for new borrowing will be aimed for a smooth maturity schedule to diversify the interest resetting risk of refinancing debt maturities.	During 1999-00, debt refinancing amounted to $7.9 billion. In 2000-2001, maturities are estimated at $8.4 billion.
Credit Risk	Ontario only enters into new transactions with counterparties rated "A minus" or higher.	At year-end, 80 per cent of the swaps outstanding were with financial institutions with credit rating double "AA minus" or higher.
Liquidity Risk	Liquidity risk is controlled through the management of liquid reserve levels, short-term borrowing programs and prearranged lines of credit.	The average level of liquid reserves was $4.5 billion in 1999-2000. The Province's Treasury Bill and US Commercial Paper programs have authorized limits of $9 billion and $2.5 billion, respectively. The OFA can also draw on the Province's US$1.25 billion line of credit.

Priorities for 2000-2001

The Province's borrowing requirements for 2000-2001 will total $9.6 billion, consisting of $8.4 billion in maturing debt, $0.5 billion in early redemptions and debt buybacks and $0.7 in net cash requirements. The majority of borrowing will likely be done in the domestic market. An additional source of domestic borrowing will be the Canada Pension Plan Investment Fund, which is expected to have sufficient funds available to refinance nearly all of that entity's holdings of maturing provincial debt.

International capital markets will be monitored and foreign markets will be accessed when total financing costs are lower than those in the Canadian domestic market. From time to time special situations may arise that offer the Province a chance to secure long-term financing at advantageous rates. An example is the current inverted yield curve that may give the Province a bias to look at longer-term financing.

A sixth issue of Ontario Savings Bonds will be included in the 2000-2001 financing program. Due to the reduced financing needs of the Province, a smaller campaign is anticipated.

The Province, through the OFA, borrows on behalf of the OEFC. With maturing debt of $3.2 billion and a projected cash surplus of $0.7 billion in 2000-2001, total financing requirements are projected at $2.5 billion. The borrowing will be recouped when dedicated revenues exceed debt-servicing obligations, expected to begin in 2002-2003.

The OFA will continue to look at Web-based technologies such as video and audio presentations for investor relations activities, with the objective of integrating these formats into the Province's investor relations program where feasible and cost-effective. In addition, the OFA will take advantage of advanced Internet technology to lower financing costs. One area that is being pursued aggressively is an Internet Auction facility for the Province's Treasury Bills.

Responsibilities

- Monitor and measure financial risks and performance associated with borrowing, debt management and investment of liquid reserves.
- Develop risk management policies and monitor compliance.
- Forecast and analyze Public Debt Interest for the Provincial budget and quarterly fiscal updates.
- Assess counterparty credit risk and manage rating agency relations.
- Provide systems development and information technology support.

Kanak Chopra
Director,
Risk Control Division

1999-2000 Accomplishments

The division accomplished the goals set out for its core areas of responsibility: performance and risk exposure measurement and reporting, credit analysis and rating agency relationships and information systems.

As part of a continuous effort to use more advanced quantitative measures for risk and performance measurement, the Value-at-Risk ("VaR") methodology was applied to establish a risk budget and a performance target for the OFA's debt management program. The application was done on a trial basis for the second half of the year. The purpose of the trial was to enhance our understanding of the concept and to raise implementation-related issues. This methodology is now being applied to measure performance and risks associated with the 2000-2001 Debt Management Program.

The VaR concept was also applied to public debt interest to estimate "PDI-at-Risk," which quantified potential upward pressure on the Province's public debt interest cost during the fiscal year. Ongoing process-related refinements to the forecasting and tracking of Public Debt Interest were continued.

Specifications for a performance reporting system, a subset of the risk reporting systems, were developed. This included a methodology for the streamlined measurement of the performance of the borrowing and debt management programs. Corresponding systems development work was also initiated.

To support the reduction of the Province's borrowing costs, the OFA proactively communicated with the credit rating agencies all the improvements to Ontario's fiscal and economic outlook. Ontario Hydro's successful restructuring was also reported to the credit rating agencies. The result was Ontario's credit rating improved, receiving an upgrade to AA (low) from A (high) by Dominion Bond Rating Service and a change in outlook to stable from negative by Canadian Bond Rating Service.

During 1999-2000, an aggressive information technology (IT) development schedule was followed. Work on several treasury systems, the Integrated Treasury System (combining the Settlement and Blotter), the Cash Management System and the Accounting and Financial Reporting System was initiated.

Priorities for 2000-2001

During 2000-2001, with the increasing reliance on Value-at-Risk, internally developed VaR models will be rigorously tested and upgraded to more accurately measure VaR for options. The OFA will develop a framework for stress testing and scenario analysis to complement the tools of portfolio and strategy assessment, and risk assessment using Value-at-Risk,

Performance-at-Risk, and PDI-at-Risk measures. The OFA strives to ensure that relevant industry best practices relating to risk management are followed.

Communications with credit rating agencies ensures that the Province's credit rating is based on current information and there is an accurate interpretation of the Province's finances. Now that the Province has a balanced budget, and is committed to reducing Net Provincial Debt, strong arguments in support of credit rating improvements will continue to be put forward to the rating agencies.

Work will be initiated to develop in-house expertise to assess risks relating to the Non-Utility Generation (NUGs) contracts as well as for establishing performance benchmarks for the management of NUG contracts.

Efforts to upgrade and standardize the risk performance measurement and reporting systems and processes to achieve efficiencies will continue. Model risks will be managed by testing and documenting all the OFA valuation and pricing models to ensure that they are up-to-date with respect to recent developments in the financial industry.

During 2000-2001, ongoing improvements will be made by the OFA to its information technology systems to fulfill the core objective of providing cost-effective government financing and debt management services. Significant progress is expected on the Integrated Treasury System, Performance and Risk Reporting System, Financial Reporting and Accounting System and Cash Management System. In addition, there is expected to be an increased use of Internet and e-commerce technologies. The OFA will ensure that issues relating to system security are addressed when Internet and e-commerce technologies are implemented.

Responsibilities

- Advise Ontario ministries on financial policy issues such as alternative financing, public-private partnerships and asset management.
- Advise on project and infrastructure financing approaches.
- Advise on the financial implications of potential privatizations.
- Develop financial options for Ontario agencies and Crown corporations.

William Ralph
Director,
Corporate Finance Division

1999-2000 Accomplishments

The OFA participated in a number of government initiatives.

Advice was provided on the financial restructuring of Ontario Hydro with the new successor companies commencing as new entities as of April 1, 1999. The OFA also managed the financial aspects of the transition, including start-up operations for the Ontario Electricity Financial Corporation (OEFC).

The OFA assisted the Catholic School Boards Services Association (CSBSA) in developing the first pooled financing transaction for school boards in Ontario. This transaction raised $200 million on behalf of nine Ontario school boards in early 2000-2001.

The OFA advised on a number of local sector financing issues during the year. In 1999, the OFA was invited by the Ontario Hospital Association (OHA) to participate in its Hospital Capital Funding Working Group. Through its participation in this forum the OFA has been exploring alternative financing approaches, such as pooled borrowing, with the hospital sector.

Working with the Office of Privatization, the Authority provided financial policy advice and analysis that helped facilitate the successful sale of the Highway 407 Express Toll Route. The Highway was sold for $3.107 billion. The privatization initiative received the gold award in project financing from the Canadian Council for Public Private Partnerships.

In addition, assistance was given to the Office of Privatization in conducting a number of privatization reviews.

Priorities for 2000-2001

In 1999, the Province announced the creation of the Ontario SuperBuild Corporation. The agency will support the implementation of the government's $20 billion SuperBuild Growth Fund initiative, as well as its privatization activities. The OFA will assist the Ontario SuperBuild Corporation in the fulfillment of its mandate, including the identification and delivery of major infrastructure projects and the review and potential privatization of Crown assets.

In an effort to achieve greater efficiencies in broader public sector financing, the OFA will continue to assist this sector in consolidating its members' borrowing requirements. For example, the OFA will endeavour to build upon the success of the Ontario School Boards Financing Corporation, providing assistance to school boards in achieving further efficiencies. The OFA will also work with the hospital sector to encourage pooled borrowing among its members. Discussions will also be initiated with universities and colleges to assess their interest in the pooled financing concept, particularly in the context of the recently announced capital renewal program. Furthermore, the OFA will assess the benefits of a pooled financing vehicle for the municipal sector.

Working with the Electricity Restructuring Office of the Ministry of Finance, the OFA will continue to provide ongoing advice and analysis in respect of the restructuring of the electricity sector. In particular, an overall strategy and management approach for the OEFC's Non-Utility Generation (NUG) contracts will be pursued.

The OFA will advise the Ontario Olympic Sports and Waterfront Development Agency on a strategy and approach for providing Provincial financial assurances in support of Toronto's bid for the 2008 Olympic Games.

Finally, efficient financing opportunities for various Provincial assets will be pursued. For instance, the feasibility of a cross-border financing for the nine CL-415 water- bombers will be assessed and further centralization of financing activities, such as a leasing pool, will be explored.

Responsibilities

- Lead government-wide initiatives aimed at centralizing the Province's cash management and financial services activities.
- Make payments to debt, securities and derivatives transactions.
- Provide banking advice regarding Consolidated Revenue Fund revenues and disbursements.
- Manage banking and fiscal agency relations.
- Generate accounting, financial and management reporting.
- Advise on accounting issues and their implications.

Christine Moszynski
Director,
Capital Markets Treasury Division

1999-2000 Accomplishments

A number of initiatives were implemented to improve the timing of the Province's cash flows, enhance financial services to client groups and strengthen internal operations and controls.

Cash Management

The OFA successfully advocated the inclusion of prudent cash management principles in the Transfer Payment Accountability Directive of the Management Board Secretariat. The cash management section worked with Shared Services Bureau (SSB) and Integrated Financial Information System (IFIS) project to provide guidance on the integration of cash management-related services.

The cash management section implemented the first phase of an integrated cash-flow projection system that moved the existing systems to more modern and Y2K-compliant technology.

To promote cash management awareness and business-like practices in Ontario ministries, OFA staff presented several seminars on effective cash management to government departments.

Finally, the cash management section finalized and completed the planning, organizing and assumption of the bank funding and cash-flow projections activities for the OEFC.

Banking Services

Throughout 1999-2000, the OFA worked with the Ministry of Finance, other ministries, Service Ontario, Ontario Business Connects and the Electronic Commerce Task Force to design and implement cost-effective revenue collection and payment channels. In particular, opportunities were sought for new banking technologies, such as Internet-based products and electronic benefit cards.

In this regard, the OFA has also been participating with Management Board Secretariat (MBS) in the development of a government policy for Internet e-commerce. The goal of the OFA is to ensure the efficiencies of this technology are realized as soon as possible, within strict security parameters.

Management Board approved the extension of the existing contract for debit and credit cards to November 2000, to mitigate against a potential Year 2000 impact. In preparation for tendering the credit and debit card business in 2000-2001,

the OFA conducted market research to determine strategy options to ensure the Province obtains the lowest fees possible in the marketplace.

The OFA supported the Ministry of Training, Colleges and Universities in negotiations with banks and the federal government towards a new financing agreement that will support a harmonized student loan program.

Finally, the OFA provided advice and established the banking services required by OEFC.

Accounting and Settlements

The OFA assumed the responsibilities for the accounting and settlement services of the former Ontario Hydro's debt and financial instruments portfolio. Staff and support systems were organized and procedures were implemented to carry out the OFA's new responsibilities. In addition, the OFA is responsible for the financial reporting and analysis for the OEFC.

Steps were taken to maintain a high level of awareness with respect to accounting developments regarding debt, public debt interest and other financial instruments.

Priorities for 2000-2001

Cash Management

The OFA will continue to promote cash management awareness and business-like practices across Ontario ministries. The cash management section will continue to liaise with the Office of the Controller, Ministry of Finance and Shared Services Bureau of MBS to ensure that cash management and related services continue to be provided after the restructuring of financial administration functions in ministries.

Division staff will provide input into the Integrated Financial Information System (IFIS) project so that the OFA's cash management information needs are satisfactorily met by the new system and during the transition period. Finally, the cash management section will undertake further improvements to cash-flow forecasting for shorter- and longer-term needs.

Banking Services

The OFA will continue to work with Ministries, Shared Services Bureau, ServiceOntario, Ontario Business Connects and the Electronic Commerce Task Force in designing and implementing cost-effective revenue collection and payment channels using new and existing banking services. Similarly, the OFA will promote the efficient use of electronic benefits cards where possible.

As the banking industry develops new services based on ever-evolving technologies, the OFA will enlist the support of the banks to ensure the new efficiencies and cost savings are realized by the government. Foremost among these new technologies is Internet e-commerce, which has unrealized potential in the delivery of government services.

For example, the OFA, working with the Ministry of Finance and major banks, will introduce an electronic tax filing service in the summer of 2000. Once implemented, taxpayers will be able to settle their taxes electronically, a more convenient method to remitters and administratively more efficient than any other revenue collection option.

In 2000-2001, the OFA will tender for the Government's acceptance of credit and debit card services and manage the implementation across the user ministries. The OFA will also tender for settlement and custodial services supporting the OFA's bond and money market activities.

Capital Markets Treasury Division will provide banking advice and operational support to this year's Ontario Savings Bonds campaign.

The OFA will continue to support the Ministry of Training, Colleges and Universities in negotiations with the banks and the federal government regarding a harmonized student loan program. The target date for a new financing arrangement is August 1, 2001.

Accounting and Settlement

The development and implementation of a new "Integrated Treasury System" modules in 2000-2001 will improve processes, accuracy, timeliness, efficiency and staff satisfaction. Once the system is operational in 2000-01, savings estimated at $150,000 annually will accrue to the Province. Further improvements to the integration of the OEFC debt portfolio administration into the OFA will be sought to add accuracy and efficiency.

The OFA will continue to stay abreast of accounting developments and ensure that the OFA is in the forefront with respect to financial reporting for the Province and OEFC.

Finally, a review of industry best practices regarding settlements and fiscal agency functions will be undertaken and appropriate changes will be implemented.

Responsibilities

- Offer chequing/savings accounts, short-term deposits and guaranteed investment certificates to the public.
- Plan and execute the Ontario Savings Bond Campaign.

David Brand
Director,
Province of Ontario Savings Office

The mandate of the Province of Ontario Savings Office (POSO) is to supply financing to the Province while providing financial services to the public. Currently, POSO provides deposit-taking services to the public through a network of 23 branches and five agencies. There is currently $2.8 billion in deposits, ranging from demand deposits paying daily interest, to five-year guaranteed investment certificates. Deposits made at POSO offer depositors the same security as that provided to a holder of the Province's bonds.

1999-2000 Accomplishments

The 1999 Ontario Savings Bond campaign raised over $2 billion and was the biggest provincial savings bond campaign in Canadian history.

In 1999, POSO implemented some modest improvements to its product line to increase its customer base and provide value to existing customers. Some of these improvements include the introduction of a year-round cashable guaranteed investment certificate and improvements to the banking system network. In addition, POSO took the initial steps to develop its own Web site that will allow clients electronic access to POSO products.

Priorities for 2000-2001

POSO is a potential candidate for privatization, but has yet to be reviewed by Ontario SuperBuild Corporation. If a decision is made to privatize, POSO will assist in implementing that decision with the best interests of its customers in mind. Development of new products designed to improve service to customers will proceed in 2000-2001, subject to approval by the Ontario SuperBuild Corporation. Early in the new fiscal year, POSO will launch its own Web site to provide customers and potential customers with on-line information and the ability to buy certain products without visiting a branch.

FINANCIAL STATEMENTS

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Notes to Financial Statements

The OFA's main source of revenue continues to be derived from the operations of the Province of Ontario Savings Office (POSO), which accepts deposits from the general public. The OFA operates POSO as agent of the Minister of Finance and POSO deposits are direct liabilities of the Consolidated Revenue Fund.

Total funds on deposit with POSO as of March 31, 2000 were $2.8 billion representing an increase of $300 million from the $2.5 billion reported as of March 31, 1999. The increase was made up largely from higher long-term GIC deposits ($145 million), deposits by the Ontario Casino Corporation ($175 million) and the Ontario Clean Water Agency ($15 million). Deposits by Ontario Realty Corporation decreased by $10 million.

The average effective rate of interest paid on all POSO deposits increased to 4.28 per cent in 1999-2000 from 4.15 per cent in 1998-1999. The increase is a reflection of the general rise in short-term interest rates compared to last year.

The OFA's net income for the year ended March 31, 2000 was $8.9 million, an increase of $300,000 over the $8.6 million reported for the same period last year. The net increase in interest earned of $750,000 plus an increase in POSO miscellaneous revenue of $200,000 was offset by direct operating costs of $630,000, largely due to additional Year 2000 (Y2K) initiatives.

Salaries, wages and benefits for the OFA totalling $16.6 million represent an increase of $265,000 over last year, primarily due to a one-time union dues provision on behalf of certain POSO employees.

Administrative and general expenses for the OFA increased by $370,000, mainly POSO, over last year as a result of additional Y2K initiatives.

Net capital assets as of March 31, 2000, were $2.0 million representing a balance as of March 31, 1999 of $2.4 million plus purchases of $780,000 and less amortization of $1,166,000. Purchases pertained mainly to computer workstation and technology infrastructure upgrades required for Y2K and specialized financial applications.

Retained earnings of $55.9 million (since inception) represent notional amounts. Annually, the OFA's financial results are consolidated on a line-by-line basis with those of the Province. This accounting treatment is in accordance with the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), under which the OFA is considered a service organization.

As agent for the Province, the OFA made loans to public bodies, the repayment of which is to be funded through third-party revenues. These loans are reported in Note 5 to the financial statements. They include loans made to the Metro Toronto Convention Centre for expansion of its facilities, the Ontario Northland Transportation Commission for the acquisition of new lumber cars, the Corporation of the City of Windsor for the construction of the Windsor Justice Facility, and Centennial Centre of Science and Technology for the construction of OMNIMAX Theatre.

The outstanding balance of these loans, including capitalized interest, as of March 31, 2000 was $215 million. This is a decrease of $1.5 billion from the $1.71 billion reported a year ago due to assignment of the Ontario Transportation Capital Corporation (OTCC) loan to the Province. To facilitate the sale on May 5, 1999 of the OTCC by the Province of Ontario, effective April 6, 1999 the OFA assigned and transferred all of its rights, title and interest in debt owed to it by the OTCC, including long-term debt, promissory notes and accrued interest, to the Province. Indebtedness of the OFA to the Province of $1.5 billion including accrued interest was effectively discharged.

The OFA continued to provide investment management services to the Northern Ontario Heritage Fund Corporation (NOHFC) and provided investment management services to the Ontario Trillium Foundation and Ontario Securities Commission. As of March 31, 2000, the OFA managed investments of $194 million, $58 million and $15 million respectively on their behalf (March 31, 1999 - $199 million on behalf of NOHFC only).

The OFA also administers the loans receivable and payable of the former Ontario Municipal Improvement Corporation (OMIC). OMIC assets of $80 million consist of debentures receivable from various municipalities and school boards. An equal amount of liabilities are payable to Canada Pension Plan and the Province. During the 1999-2000 year approximately $316,000 of loans receivable from municipalities matured. The interest earned and paid annually on account of OMIC assets and liabilities amounts to $7.8 million and is expected to remain at this level until 2011, when CPP loans start maturing.

Responsibility for Financial Reporting

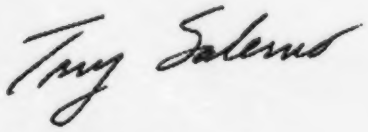
The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 19, 2000.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Tony Salerno
Vice-Chair and
Chief Executive Officer

Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2000 and the statements of net income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2000 and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles.

Erik Peters

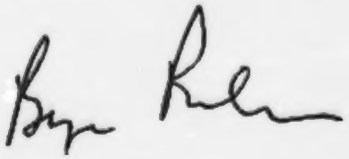
Toronto, Ontario
June 19, 2000

Erik Peters, FCA
Provincial Auditor

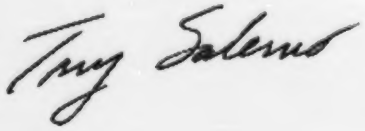
(in thousands of dollars)	Corporate	POSO	Total March 31, 2000	Total March 31, 1999
ASSETS				
Current assets				
Cash	$ 121	22,613	22,734	$ 44,992
Receivable from the Province of Ontario (note 2i)	314	2,307,122	2,307,436	1,890,744
Accounts receivable	3,019	37,615	40,634	40,729
Loans receivable (note 4)	326	—	326	316
Total current assets	$ 3,780	2,367,350	2,371,130	$ 1,976,781
Long-term assets				
Capital assets (note 3)	1,447	575	2,022	2,405
Receivable from the Province of Ontario (note 2ii)	—	532,885	532,885	624,602
Loans receivable (note 4)	79,505	—	79,505	79,832
Total assets	$ 84,732	2,900,810	2,985,542	$ 2,683,620
LIABILITIES AND RETAINED EARNINGS				
Current liabilities				
Accounts payable and accrued liabilities	$ 4,367	33,277	37,644	$ 39,217
Funds on deposit (note 2i)	—	2,279,288	2,279,288	1,892,681
Due to the Province of Ontario (note 4)	326	—	326	316
Total current liabilities	$ 4,693	2,312,565	2,317,258	$ 1,932,214
Long-term debt				
Funds on deposit (note 2ii)	—	532,885	532,885	624,602
Due to CPP and the Province of Ontario (note 4)	79,515	—	79,515	79,841
Total liabilities	$ 84,208	2,845,450	2,929,658	$ 2,636,657
Retained earnings	524	55,360	55,884	46,963
Total liabilities and retained earnings	$ 84,732	2,900,810	2,985,542	$ 2,683,620

See accompanying notes to financial statements.

Approved on behalf of the Board:



Bryne Purchase
Chair



Tony Salerno
Vice-Chair and Chief Executive Officer

Statement of Net Income and Retained Earnings

(in thousands of dollars)	Corporate	POSO	Total March 31, 2000	Total March 31, 1999
REVENUE				
Interest revenue	$ 7,716	134,899	142,615	$ 126,940
Cost recovery from the Province	10,392	—	10,392	10,202
Miscellaneous revenue	—	1,540	1,540	1,334
Total revenue	$ 18,108	136,439	154,547	$ 138,476
EXPENDITURES				
Interest on short-term debt	$ —	81,824	81,824	$ 69,004
Interest on long-term debt	7,711	32,157	39,868	37,764
Salaries, wages and benefits	7,589	9,031	16,620	16,355
Administrative and general	1,986	4,162	6,148	5,778
Amortization	818	348	1,166	981
Total expenditures	$ 18,104	127,522	145,626	$ 129,882
Net income for the year	$ 4	8,917	8,921	$ 8,594
Retained earnings, beginning of the year	520	46,443	46,963	38,369
Retained earnings, end of the year	$ 524	55,360	55,884	$ 46,963

See accompanying notes to financial statements.

(in thousands of dollars)	Corporate	POSO	Total March 31, 2000	Total March 31, 1999
Cash flows from operating activities				
Net income for the year	$ 4	8,917	8,921	$ 8,594
Adjustments to reconcile net income to funds provided by operating activities:				
Amortization	818	348	1,166	981
Net change in accounts receivable, payable and accrued liabilities	(209)	(1,269)	(1,478)	(103)
Cash flows from operating activities	$ 613	7,996	8,609	$ 9,472
Cash flows from financing activities				
Increase in proceeds from depositors	$ —	294,890	294,890	$ 272,424
Repayments to the Province re: OMIC loans	(316)	—	(316)	(316)
Repayments from holders of OMIC loans	317	—	317	315
Cash flows from financing activities	$ 1	294,890	294,891	$ 272,423
Cash flows from investing activities				
Increase in POSO funds loaned to the Province of Ontario	$ —	(324,975)	(324,975)	$ (259,461)
Purchase of capital assets	(609)	(174)	(783)	(1,060)
Cash flows used in investing activities	$ (609)	(325,149)	(325,758)	$ (260,521)
Net increase(decrease) in cash	$ 5	(22,263)	(22,258)	$ 21,374
Cash at beginning of the year	116	44,876	44,992	23,618
Cash at end of the year	$ 121	22,613	22,734	$ 44,992

See accompanying notes to financial statements.

(all tables are in thousands of dollars)

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA's objects are:

- to assist public bodies and the Province of Ontario to borrow and invest money;
- to develop and carry out financing programs, issue securities, manage cash, currency and other financial risks on behalf of the Province, or any public body;
- to provide such other financial services as are considered advantageous to the Province or any public body;
- to operate offices as provided under the Province of Ontario Savings Office Act, as agent for the Minister of Finance; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* of Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

(i) General: The financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants.

(ii) Capital assets: Capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset as listed below. Amortization is not taken in the year of acquisition.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	remaining life of lease

2. PROVINCE OF ONTARIO SAVINGS OFFICE

The OFA operates the Province of Ontario Savings Office (POSO) as agent of the Minister of Finance. POSO accepts deposits from the general public, government and other public bodies that form part of the Consolidated Revenue Fund and are direct liabilities of the Province. Administration costs for the period ended March 31, 2000 of $1,062,670 (March 31, 1999 - $933,800) relating to POSO are provided by the Ministry of Finance and are not included in these financial statements. The average rate of interest paid to depositors and earned from the Province for the year ended March 31, 2000 was 4.28 per cent and 5.04 per cent respectively (March 31, 1999 - 4.15 per cent and 4.99 per cent respectively). These deposits are comprised as follows:

(i) **Receivable from the Province of Ontario and short-term funds on deposit**

	March 31, 2000	March 31, 1999
Short-term deposits	$ 147,696	$ 190,223
Demand deposits	1,490,462	1,124,201
GICs maturing within one year	641,130	578,257
Total short-term funds on deposit	**$ 2,279,288**	**$ 1,892,681**

Short-term funds on deposit include deposits made by the Ontario Casino Corporation (OCC), Ontario Clean Water Agency (OCWA), Ontario Realty Corporation (ORC) and other government agencies of about $555 million (March 31, 1999 - $117 million). Funds held on behalf of OCC of $410 million were transferred from a long-term deposit to a short-term demand account earning a rate of 4.90 per cent (March 31, 1999 - $236 million, invested in long-term GICs, earning a variable rate of interest from 4.33 per cent to 5.65 per cent). Funds held on behalf of OCWA and ORC totalling $114 million earned a variable rate of interest from 5.31 per cent to 5.52 per cent and prime less 2 per cent, respectively, as at March 31, 2000 (March 31, 1999 - $109 million earning a variable rate of interest from 4.50 per cent to 5.50 per cent for both accounts combined).

The total current 'Receivable from the Province' of $2,307,436 (March 31, 1999 - $1,890,744) includes short-term funds on deposit plus working capital, mainly of POSO.

(ii) Receivable from the Province of Ontario and long-term funds on deposit

The long-term 'Receivable from the Province' represents deposits for which POSO has issued long-term GICs. These deposits mature as follows:

	As at March 31, 2000		As at March 31, 1999	
Year ended March 31	**Principal Maturing**	**Effective Average Interest Rate (%)**	**Principal Maturing**	**Effective Average Interest Rate (%)**
2001	$ —		$ 384,899	5.02
2002	250,290	5.71	120,839	5.82
2003	135,447	5.56	75,510	5.37
2004	55,984	5.35	43,354	5.22
2005	91,164	5.90	—	
Total	**$ 532,885**		**$ 624,602**	

3. CAPITAL ASSETS

The balance of capital assets, net of amortization, is as follows (amortization begins in the year following acquisition):

	Cost	Accumulated Amortization	Net March 31, 2000	Net March 31, 1999
Furniture and equipment	$ 1,154	$ (1,020)	$ 134	$ 314
Computer hardware	4,737	(3,049)	1,688	1,846
Leasehold improvement	1,194	(994)	200	245
	$ 7,085	**$ (5,063)**	**$ 2,022**	**$ 2,405**

4. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the *Capital Investment Plan Act, 1993*, the Ontario Municipal Improvement Corporation (OMIC) ceased to exist and its assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) and the Province, which OMIC used to make loans to municipalities and school boards under similar terms as its debt.

As of March 31, 2000, the portion of long-term debt maturing in 2000-2001 is $326,000 (March 31, 1999 - $316,000 maturing in 1999-2000) and is due to the Province. Long-term debt (maturing in the year ended March 31, 2002 and future) is composed of debt due to the Province of $494,000 and to the Canada Pension Plan of $79 million (March 31, 1999 - $820,000 and $79 million respectively, maturing in year ended March 31, 2001 and future). The terms of the outstanding debt are as follows:

	As at March 31, 2000		As at March 31, 1999	
Year ended March 31	**Principal Maturing**	**Effective Average Interest Rate (%)**	**Principal Maturing**	**Effective Average Interest Rate (%)**
2000	$ —		$ 316	13.39
2001	326	13.58	326	13.58
2002	354	13.59	354	13.59
2003	64	11.55	64	11.55
2004	54	11.55	54	11.55
2005	6	11.25	—	
1 - 5 years	$ 804		$ 1,114	
6 - 20 years	79,037	9.61	79,043	9.61
Total	**$ 79,841**		**$ 80,157**	

5. TRANSACTIONS WITH THE PROVINCE AND OTHER PUBLIC BODIES

(i) Financing activities between the Province and other Public Bodies: Acting as a financial conduit for the Province, the OFA provides financing to various public bodies, the repayment of which is expected from third-party revenues. The funds for these loans are advanced to the OFA by the Province under a credit facility of $2.16 billion. Repayments received from public bodies by the OFA are forwarded to the Province. These transactions are not reflected in these financial statements.

In compliance with an Ontario Financing Authority Lending Policy adopted by its Board of Directors on December 17, 1997, each advance received by the OFA under the current facility bears interest at a rate that is equivalent to the rate of interest payable to the OFA on the corresponding loan to a public body(ies). As of March 31, 2000, $215 million (March 31, 1999 - $1.71 billion), including accrued interest, was advanced by the Province to the OFA and must be repaid by the OFA on or before August 31, 2027.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements, consisting of a number of promissory notes for terms not exceeding one year. Interest is payable on the principal plus any capitalized interest. As of March 31, 2000, these interest rates ranged from 4.98 per cent to 5.48 per cent (March 31, 1999 from 4.75 per cent to 5.65 per cent). It is the OFA's intention to replace these promissory notes with term debt, at which point repayment terms will be finalized.

Prior to March 31, 2000, the following has been converted into debentures: Ontario Northland Transportation Commission - $3.9 million at 5.64 per cent maturing April 1, 2008, $12.7 million at 6.37 per cent maturing August 1, 2014 and $19 million at 5.6 per cent maturing December 1, 2014.

The following represents amounts receivable by the OFA on behalf of the Province, including capitalized interest, net of financing costs. These are related party transactions, with the exception of those with the City of Windsor.

	March 31, 2000	March 31, 1999
Ontario Transportation Capital Corporation - Hwy 407	$ —	$ 1,524,642
Metro Toronto Convention Centre	156,583	151,360
Corporation of the City of Windsor	23,450	19,923
Ontario Northland Transportation Commission	34,717	17,725
Centennial Centre of Science and Technology	607	600
	$ 215,357	**$ 1,714,250**

The Ontario Transportation Capital Corporation (OTCC) was created as a Crown agency of the Province established by the *Capital Investment Plan Act, 1993*. In 1999, the OTCC was continued as a share capital corporation under the *Ontario Business Corporations Act*, wholly owned by the Province, and renamed "407 ETR Concession Company Limited" which was sold to a private consortium on May 5, 1999.

To facilitate the sale, effective April 6, 1999 the Ontario Financing Authority assigned and transferred all of its rights, title and interest in debt owed to it by the OTCC, including long-term debt, promissory notes and accrued interest, to the Province. The Province agreed to accept such assignment as payment in full of the corresponding indebtedness of the OFA to the Province. The Province also confirmed that the indebtedness of the OFA to the Province of $1,524,642,000 including accrued interest was discharged.

The Metro Toronto Convention Centre Corporation (MTCC) is a Crown agency of the Province under the Metropolitan Toronto Convention Centre Corporation Act. The majority of directors on the MTCC board is appointed by the Lieutenant Governor in Council.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of provincial division courthouse and city police headquarters.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. Members of the Commission are appointed by the Lieutenant Governor in Council.

The Centennial Centre of Science and Technology is a Crown agency of the Province under the Centennial Centre of Science and Technology Act. Its Board of Trustees is appointed by the Lieutenant Governor in Council.

(ii) **Investing for Related Parties** In the normal course of operations, the OFA provides investment management services to other public bodies. Funds managed on behalf of other public bodies (which are not reflected in these financial statements) as of March 31, 2000, consist of $194 million held on behalf of the Northern Ontario Heritage Fund Corporation (March 31, 1999 - $199 million), $58 million held on behalf of Ontario Trillium Foundation (March 31, 1999 - NIL) and $15 million held on behalf of Ontario Securities Commission (March 31, 1999 - NIL). The OFA also manages debt on behalf of the Province and was reimbursed $10.4 million for the year ended March 31, 2000 for these activities (March 31, 1999 - $10.2 million).

(iii) **Province of Ontario Savings Office:** Other related parties have deposited their funds on a long- and short-term basis. Total amounts deposited as at March 31, 2000 were $555 million (March 31, 1999 - $389 million).

6. PENSION PLAN

The OFA provides pension benefits for its employees through participation in the Public Service Pension Plan. The OFA's pension contributions for the period ended March 31,2000 were $875,000 (March 31, 1999-$817,000).

7. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, receivable from the Province of Ontario, accounts payable and accrued liabilities and short-term funds on deposit approximate their fair values because of the short-term maturity of these instruments.

Given that the terms and amounts of the OFA's long-term receivables offset the OFA's long-term debt, providing fair values for these instruments would not add any more useful information to that which has already been presented in these financial statements.

8. SALARIES (absolute dollars)

Provincial Legislature requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of $100,000. The amounts paid in 1999 to individuals listed below, who are identified with an asterisk (*), include salary and performance-based pay.

Name	Position	Remuneration Paid	Taxable Benefits
Charles Allain	Manager - Risk Management	$ 141,486*	$ 345
Kanak Chopra	Director - Risk Control	$ 167,288*	$ 411
James Devine	Manager - Fixed Income & Medium-Term Notes	$ 132,705*	$ 326
Andrew Hainsworth	Manager - Funding	$ 133,600*	$ 326
Douglas Harrington	Manager - Risk Control Operations	$ 125,150*	$ 307
Michael Manning	Director - Risk Management	$ 187,344*	$ 453
Gadi Mayman	Executive Director, Capital Markets	$ 193,409*	$ 469
Christine Moszynski	Director - Capital Markets Treasury	$ 106,460	$ 281
David Peters	Manager - Foreign Exchange	$ 132,511*	$ 326
William Ralph	Director - Corporate Finance	$ 108,186	$ 281
Tony Salerno	ADM - Office of Treasury/CEO - Vice Chair, OFA	$ 233,692*	$ 568
Corey Simpson	Legal Counsel	$ 116,250	$ 330

CORPORATE GOVERNANCE

Corporate Governance

■

Corporate Policies

Corporate governance at the Ontario Financing Authority involves processes that permit the effective supervision and management of the OFA's activities by senior officials, the Board of Directors and the Minister of Finance. Corporate governance also includes identifying those individuals and groups who are responsible for the OFA's activities and specifying their roles.

The Ontario Financing Authority's accountability framework flows from its governing statute, the *Capital Investment Plan Act, 1993* and from a Memorandum of Understanding between the OFA and the Minister of Finance. Together, they provide that the Minister of Finance is accountable to Cabinet for the activities of the OFA. The Chief Executive Officer reports to the Board of Directors. In turn, the Board reports to the Minister of Finance.

The Minister of Finance supervises the OFA with the aid of information reported through the Chair of the Board of Directors, who is also the Deputy Minister of Finance and through senior management of the OFA. The Minister of Finance reviews, approves and recommends to the Management Board of Cabinet the annual Corporate Plan, which contains long- and short-term objectives and reports on accomplishments for the preceding year.

The Chief Executive Officer (CEO) is responsible to the Board of Directors for day-to-day operations. The CEO also ensures that policies and procedures, including financial reporting, remain relevant and effective. Staff are accountable, through senior management, to the CEO.

The *Capital Investment Plan Act, 1993* sets out a broad framework for the Ontario Financing Authority's operations. This is supplemented by a memorandum of understanding with the Ministry of Finance and internal policies on risk management including financial reporting.

In carrying out its mandate, the Ontario Financing Authority faces financial risks that are inherent in managing financial assets and liabilities. Risk management policies ensure that the financial risks that the Province faces are identified, monitored, evaluated, reported and managed. The OFA manages financial risk through a comprehensive framework of debt management infrastructure, policies and procedures.

Overview and Structure

Board of Directors

- Reviews and approves key risk management policies related to capital market activities.
- Supervises the management of the Province's debt and investment portfolio.

Audit Committee:

- Oversees the financial reporting process on behalf of the Board of Directors.
- Reviews key risk management policies, internal audit reports and the financial statements.

Management Committees

Risk Management Committee

- Reviews daily market updates and outlook.
- Reviews current borrowing, investing and debt management positions and strategies.

Borrowing Strategy Committee

- Reviews economic conditions, fiscal plan and capital markets outlook.
- Reviews borrowing and debt management activities and management reports, cash flows and the public debt interest forecast.
- Reviews operational limits and procedures related to financial operations.
- Approves exceptions to approved risk management policies.
- Approves risk management policies for recommendation to the Board of Directors.

Risk Control Division

- Monitors and measures financial risks and performance associated with borrowing, debt management and investment of liquid reserves.
- Develops risk management policies and monitors compliance with the Board-approved policies, limits and procedures, and monitors portfolio performance and trends.
- Assesses counterparty credit risk and manages rating agency relations.

Risk Management Policy Framework

The Ontario Financing Authority has a number of policies in place to minimize financial risk: market risk, credit risk, operational risk and risks related to the use of derivatives. These policies were developed after reviewing the Group of Thirty's best practices, the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada and consulting with Canadian bank representatives on their risk management practices. Key aspects of the policies are summarized below.

A. Market Risk

This policy provides a framework for borrowing and debt management activities and integrates several aspects dealing with the management of market risk.

- **Foreign Currency Exchange Limit** - The Province's exposure to unhedged foreign-currency is limited to 5 per cent of Funded Debt and Trust Liabilities. Foreign-currency exchange exposures are limited to Group of Seven currencies and the Swiss franc or the equivalent currencies (i.e., Euro).

- **Floating Rate Limit** - The Province's net floating interest rate exposure is limited to 20 per cent of outstanding debt, net of liquid reserves. Effective April 1, 2000 a new measure, **Interest Rate Resetting Risk**, will replace the Floating-Rate Limit. The new measure of floating-rate exposure was broadened to include fixed-rate debt maturing within a 12-month period to more accurately reflect total interest rate resetting risk. The new measure limits interest rate resetting risk to no more than 25 per cent of Funded Debt and Trust Liabilities, net of liquid reserves.

- **Public Debt Interest and Debt Management Loss Limits** - Actual Public Debt Interest (PDI) must not exceed budgeted annual PDI by more than three per cent as a result of adverse floating rate interest or foreign exchange movements (PDI loss limit). In addition, the CEO establishes a debt management trigger level to ensure that losses will not reach the PDI loss limit. The trigger level is included in the annual borrowing and risk management plan.

- **Liquidity Risk** - Liquid reserves are maintained at levels sufficient to ensure the Government can meet its short-term financial obligations. Syndicated lines of credit, Treasury Bill and US Commercial Paper programs are also available to provide liquidity should the need arise.

- **Debt Maturity Profile** - When issuing new debt, the OFA will aim for a smooth debt maturity profile to diversify the interest rate risk of refinancing maturing and floating rate debt.

- **Risk Measurement** -The Province identifies and quantifies exposures to market risk in its annual borrowing and debt management plans to ensure that risk exposures and losses remain within the approved exposure and loss limits. Exposure to market, credit and liquidity risk is measured daily.

B. Credit Risk

Credit risk arises when the OFA invests its liquid reserves and when it carries out debt management activities to mitigate risks associated with new borrowing and Funded Debt and Trust Liabilities. To lower credit risk, the Province limits itself to undertaking transactions with the federal and provincial governments and non-government counterparies with high credit quality. The minimum credit rating of a non-government counter-party for long-term transactions is A- and for liquid reserve investments is R-1 (mid).

C. Operational Risk

The Ontario Financing Authority manages operational risk by following operating procedures that deal with model risk, legal issues, settlement issues and information systems risks.

- **Model Risk** - The OFA regularly reviews its pricing models for accuracy and compliance with industry standards. It also regularly reviews the valuation of financial instruments.

- **Legal Issues** - The OFA has established procedures and standards to ensure that documentation of debt issues, debt management and money market transactions meets industry standards and is enforceable.

- **Settlement Issues** - The OFA has established internal control procedures to ensure that transactions are settled correctly in a timely manner and are recorded accurately.

- **Information Systems Risk** - The OFA has taken measures to protect the computer systems and offices of the OFA by supervising the computing environment, establishing back-up power sources, regular data back-ups, off-site storage, fire walls to protect against unauthorized intruders, and scanning for computer viruses. Security is reviewed periodically.

D. Use of Derivatives

Derivatives are used solely to advance the OFA's objective of providing the Province's financing and liquidity requirements in a sound and cost-effective manner. Derivatives are used to manage exposures arising from existing and planned debt and in a manner consistent with the borrowing and debt management plans. Risks that arise from the use of derivatives are identified, monitored, evaluated and managed prudently.

Financial Reporting

The Ontario Financing Authority's Board of Directors receives quarterly progress reports on financing and debt management plans and current risk exposures. Also, the management provides the Board of Directors with a monthly assessment of performance relative to benchmarks approved by the Board.

The Director of Risk Control reports to the Board of Directors on the OFA's compliance with applicable financial policies. The Deputy Minister of Finance, on behalf of the Minister of Finance, receives weekly financial and financing program reports.

The adequacy and effectiveness of internal controls are examined independently by the Audit Services Division of Management Board Secretariat. It also verifies compliance with policies, procedures and operational limits. The results of these audits are reported to management and the Audit Committee of the Board of Directors.

The OFA prepares annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for approval by the Audit Committee and the Board of Directors. The financial statements are reviewed by the Provincial Auditor who expresses an opinion on whether they are presented fairly and in accordance with GAAP. The Provincial Auditor's findings are reviewed by the Audit Committee and the Board of Directors. These audited financial statements are tabled in the Ontario Legislature as part of the Ontario Financing Authority's Annual Report.

APPENDIX

Summary of Net Provincial Debt

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Debt Maturity Schedule

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Credit Ratings

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Exchanges Where the Province is Listed

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Sources of Information

NET PROVINCIAL DEBT
Interim 2000[1]

As at March 31 ($ millions)	1996	1997	1998	1999	Interim 2000	Plan 2001
Liabilities for Provincial Purposes						
Funded Debt and Trust Liabilities[2]	101,396	101,511	105,474	109,174	119,302	120,023
Other Liabilities[3]	18,858	19,954	20,748	17,713	17,353	15,832
	120,254	121,465	126,222	126,887	136,655	135,855
Financial Assets[4]	(18,390)	(12,696)	(13,487)	(12,150)	(22,572)	(21,772)
Net Provincial Debt[5]	101,864	108,769	112,735	114,737	114,083	114,083

Notes:

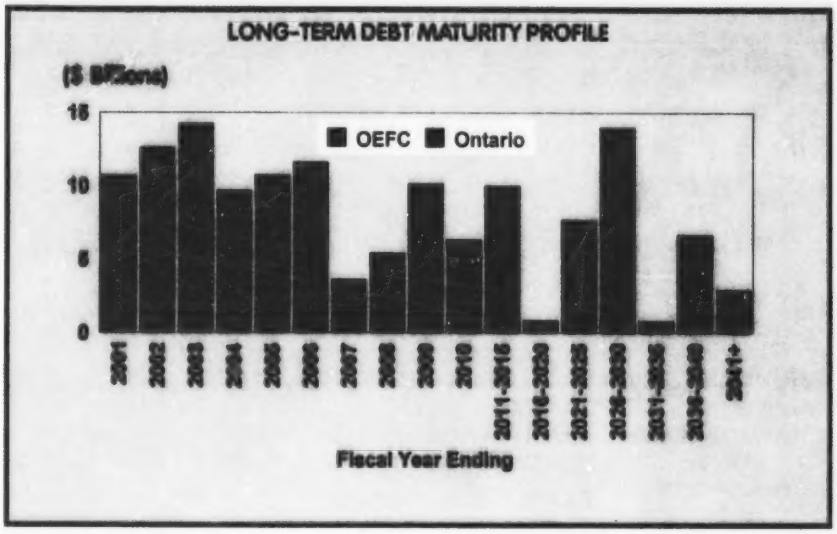
(1) Prepared on the basis of modified accrual and consolidated accounting.

(2) Effective March 31, 2000, Provincial Purpose Debt was replaced by Funded Debt and Trust Liabilities. Funded debt is composed of all debt instruments such as bonds and POSO liabilities. Trust liabilities include certain pension funds (such as the provincial judges pension fund) and special purpose accounts, which are under the Province's administration.

(3) Other Liabilities include Accounts Payable and Accrued Liabilities and Pensions.

(4) Financial Assets comprise Cash and Temporary Investments, Accounts Receivable and Investment in Government Enterprises.

(5) Net Provincial Debt represents the overall financial position of the Province, based on Public Sector Accounting Board (PSAB) accrual and consolidation accounting. Net Provincial Debt is defined as the total liabilities less the financial assets of the Province. It is found in the Public Accounts of Ontario, Financial Statements, Statement of Financial Position. For more information on Net Provincial Debt (Accumulated Deficit), please see 1998-1999 Public Accounts of Ontario, Financial Statements.



ONTARIO'S DEBT MATURITY SCHEDULE
Interim 2000[1]

($ millions)

Year Ending March 31	Debt Incurred for Provincial Purposes			Ontario Electricity Financial Corporation (OEFC) Purposes[3]	Total Debt Incurred for Provincial Purposes and for OEFC
	Publicly Held Debt[2]	Non-Public Debt	Total		
2000	117		117		117
2001	9,867[4]	1,393	11,260	3,945	15,205
2002	6,353	1,519	7,872	500	8,372
2003	9,235	2,375	11,610		11,610
2004	4,978	2,518	7,496	350	7,846
2005	6,705	2,224	8,929	2,000	10,929
2000-05	37,255	10,029	47,284	6,795	54,079
2006-10	20,005	10,794	30,799	2,248	33,047
2011-15	303	7,439	7,742	500	8,242
2016-20	3	1,342	1,345		1,345
2021-25	4,501	125	4,626		4,626
2026-49	14,342	6	14,348	104	14,452
	76,409	**29,735**	**106,144**	**9,647**	**115,791**

(1) Prepared on the basis of modified accrual and consolidation accounting.
(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
(3) This debt is offset by bonds of Ontario Electricity Financial Corporation (OEFC) bearing like terms and conditions to the Ontario obligations. Pursuant to the *Ontario Electricity Act, 1998*, OEFC was established as a continuation of Ontario Hydro on April 1, 1999.
(4) Includes $3,002 million in Treasury Bills and $396 million in U.S. Commercial Paper.

A credit rating is a current assessment of the credit worthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

Long-term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "+" or "-" (or a high or low) to indicate the relative strength of the rating within that category. The current long-term ratings of the Province of Ontario are as follows:

Standard & Poor's Corporation (New York)	AA-
Moody's Investors Service (New York)	Aa3
Canadian Bond Rating Service (Toronto)	AA
Dominion Bond Rating Service (Toronto)	AA (low), positive outlook

Short-term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. The current short-term ratings of the Province of Ontario are as follows:

Standard & Poor's Corporation (New York)	A-1+
Moody's Investor Service (New York)	P-1
Canadian Bond Ratings Service (Toronto)	A-1+
Dominion Bond Rating Service (Toronto)	R-1 (mid)

Exchanges Where the Province is Listed

The Luxemburg Stock Exchange
The London Stock Exchange
The Stock Exchange of Hong Kong
The Stock Exchange of Singapore
The Frankfurt Stock Exchange
The Paris Bourse
The Stock Exchange of Zurich
The Amsterdam Stock Exchange

Internet: www.ofina.on.ca
Provides information on Ontario's debt, debt issues and retail products and contains publications from the Ontario Financing Authority and Ontario Ministry of Finance.

Publications

Ontario Budget
- Paper D: Ontario's Financing Plan: Cutting Ontario's Debt provides a discussion of the Province's borrowing and debt management activities for the fiscal year ended and reviews the outlook for the fiscal year ahead.

Ontario Economic Outlook and Fiscal Review (Fall Statement)
- The *Ontario Economic Outlook and Fiscal Review* provides a semi-annual update on the Province's economic outlook, fiscal and financing plan.

Ontario Financing Authority Bulletins and Fact Sheets
- *OFA Bulletins* and *Fact Sheets* provide quarterly updates of Ontario's Finances and Government initiatives of interest to the financial community.

Form 18-k
- The Province's annual report to the U.S. Securities and Exchange Commission.

Ontario Financing Authority Annual Report
- The Annual Report provides information on past achievements and current objectives of the Ontario Financing Authority.

Contact Addresses and Numbers

Enquiries regarding the *2000 Annual Report* should be directed to:
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